Financial Institutions Commission

Service Plan

2003/2004 - 2005/2006

BRITISH COLUMBIA

Province of British Columbia
Ministry of Finance

105-03880/

Table of Contents

SECTION 1: INTRODUCTION 3

SECTION 2: STRATEGIC CONTEXT 4
- VISION 4
- MISSION 4
- VALUES 4

SECTION 3: PLANNING CONTEXT 5
- EXTERNAL CHALLENGES 5
- INTERNAL CHALLENGES 7

SECTION 4: ORGANIZATIONAL STRUCTURE AND GOALS 8
- ORGANIZATIONAL STRUCTURE AND CORE BUSINESS AREAS 8
- ORGANIZATIONAL CHART 9
- ORGANIZATIONAL GOALS 10

SECTION 5: PERFORMANCE MEASURES AND TARGETS 11
- REGULATORY RESPONSIBILITIES 12
- STRATEGIC OBJECTIVES 14

SECTION 6: RESOURCE SUMMARY 15
- SUMMARY EXPENDITURE PLAN 15

SECTION 1: INTRODUCTION

The Financial Institutions Commission (FICOM) was created with the merger of the Office of the Superintendent of Financial Institutions (SOFI), a part of the then Ministry of Finance and Corporate Relations, and the Credit Union Deposit Insurance Corporation (CUDIC. The initial merger took place in 1988, however, the Financial Institutions Act, the defining statute of the Commission, was proclaimed on September 1, 1989. This statute brought the regulation of credit unions, insurance, trusts, and deposit insurance coverage for credit unions under one legislative act.

In conjunction with this move, modern capital requirements and governance standards were introduced that remain among the best in Canada. British Columbia was the first jurisdiction in Canada where the regulation of financial institutions and the provision of deposit insurance were made the responsibility of a single regulatory body. Such a regulatory structure was the principal recommendation of the 1986 Estey Report on the collapse of the Canadian Commercial Bank and the Northland Bank.

Commencing in 1988, the Superintendent of Financial Institutions (SOFI) also served as the Superintendent of Real Estate and the Registrar of Mortgage Brokers, with dedicated staff to assist in the administration of these programs. These functions were previously performed by the Superintendent of Brokers, but were transferred to SOFI when the British Columbia Securities Commission was formed in 1987.

Responsibilities for British Columbia pensions were added in 2003 when the Pensions Standards Branch merged with FICOM.

FICOM currently has responsibilities under eleven different statutes:

- Financial Institutions Act
- Credit Union Incorporation Act
- Insurance Act
- Insurance (Captive Company) Act
- Insurance (Marine) Act
- Pension Benefits Standards Act
- Community Financial Services Act
- International Financial Business Act
- Mortgage Broker Act
- Real Estate Act
- Strata Property Act

Responsibilities for regulating real estate agents and salespersons, and property managers are delegated to the Real Estate Council of B.C. The Insurance Council of B.C. is responsible for regulating insurance agents, salespersons and adjusters.

The activities of FICOM are primarily funded by fees and assessments charged to industry. As a self-funded agency, FICOM is covered by a $1,000 vote in the provincial government's budget.

SECTION 2: STRATEGIC CONTEXT

VISION

To be the most progressive and cost-effective regulator in Canada of financial services, pensions, and real estate services: protecting the public interest, keeping pace with industry change, and leading effective regulatory reform.

MISSION

Maintain confidence in British Columbia's financial services sector by effective regulation.

VALUES

FICOM staff has an established and strongly supported values statement:

FICOM VALUES

- **We work together to achieve FICOM's goals.**
- **Our actions match our words.**
- **We help each other.**
- **We tell each other what we think.**
- **We listen to each other.**
- **We respect each other.**
- **We show confidence in each other.**
- **We value results over activities.**
- **We share information.**
- **We learn from our mistakes.**

SECTION 3: PLANNING CONTEXT

The financial services sector operates within a complex environment. As British Columbia's regulator of these services, FICOM faces a wide array of external and internal challenges.

EXTERNAL CHALLENGES

Technological Advances

The Internet presents substantial challenges for financial services regulators.

- Unauthorized offshore companies can now utilize the internet to provide services directly to B.C. residents and evade regulatory scrutiny.
- National and international financial services firms are increasingly moving towards call centres located outside of BC to service BC residents.
- Provincial credit unions are taking steps to expand their business outside of BC, often relying on technological opportunities that have only recently arisen.
- New technologies are making traditional branch structures less cost-effective for financial institutions. This development is prompting them to withdraw from smaller communities, particularly in rural areas, with significant ramifications for customer service and competition.

Demographic Shifts

Two significant demographic shifts will have a substantial impact on the financial services sector in British Columbia in the coming decades.

- The aging population will cause financial institutions to focus on "wealth management" to a much greater extent. The security of savings and retirement funds will be even more important, and pooled savings techniques such as mutual funds will provide competition to the traditional savings accounts offered by deposit-taking institutions.
- The population decline in some rural communities will make them less desirable to financial institutions for business development, and further issues related to customer service and competition may arise.

Economic Challenges

The BC economy faced a host of economic challenges in 2001 with many industries, such as forestry, tourism and high-tech, having confronted particularly strong challenges. Current government forecasts now

project strong growth in the coming years. However, it is notable for FICOM that periods of severe economic pressure have historically yielded significant residual challenges for financial services regulators.

Industry Consolidation

Numerous mergers and acquisitions amongst firms in the financial services sector have occurred in recent years, both amongst FICOM regulated institutions and amongst federally regulated institutions. These moves offer both benefits and challenges for financial regulators, particularly with regard to consumer issues and the complexity of regulatory activities.

Product and Other Innovations

Insurers and deposit-taking institutions have recently increased promotion of a number of new and innovative products, including expanded group insurance, segregated funds, index-linked deposits, reverse mortgages, and pet insurance. Moreover, financial derivative instruments have become increasingly popular risk management tools. These types of innovations warrant regulatory attention.

Public Information

The increasing complexity of financial services and the ongoing dangers of financial fraud present many challenges for FICOM in its efforts to inform the public about the consumer issues associated with financial services. The recent investment scandals in the United States involving Worldcom and Enron, which saw many investors fall victim to fraud, have prompted U.S. regulators to introduce more regulations related to financial disclosure. Some regulators in Canada have suggested similar moves in response to current public sentiment.

Federal Government Initiatives

As the federal regulator of banks, insurance companies and pension funds, the Office of the Superintendent of Financial Institutions, operating under the Federal Department of Finance, has considerable influence on the financial services sector. FICOM must monitor federal policy and regulatory initiatives carefully for their impact on British Columbia.

INTERNAL CHALLENGES

Transition to Risk-Based Regulation

Like many other financial services regulators, including Canada's federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), FICOM has committed to implementing a risk-based regulatory model and moving away from a traditional compliance-based model. This move presents significant challenges involving organizational restructuring, recruitment, and professional development.

Staffing, Recruitment and Professional Development

FICOM faces significant human resources challenges at this time. A relatively high-turnover rate and ongoing vacancies suggest difficulties competing with private sector employers. Recruitment of new staff is difficult and, with the average age of FICOM employees currently at forty-six, this problem will be further exacerbated in the coming years. Moreover, the move to risk-based regulation will require substantial retraining and education for existing staff.

Information Systems

FICOM's current information systems need upgrading to keep pace with changes in the financial services sector and to support FICOM's move to a risk-based regulatory framework. Substantial capital investment and management resources will be required.

New Organizational Responsibilities

Starting with the 2003/2004 fiscal year, FICOM will be responsible for provincial regulation of pensions. The integration of pensions supervision with the financial services regulator is consistent with many other provinces in Canada and the federal government. It will, however, present some organizational challenges as new staff is added, and as policies and procedures are modified accordingly.

SECTION 4: ORGANIZATIONAL STRUCTURE AND ORGANIZATIONAL GOALS

ORGANIZATIONAL STRUCTURE AND CORE BUSINESS AREAS

FICOM is organized around five core business areas:

Credit Union and Trusts

Responsible for the regulation of credit unions and trust companies under the Financial Institutions Act, Credit Union Incorporation Act, and Community Financial Services Act.

Insurance

Responsible for the regulation of insurers under the Financial Institutions Act, Insurance Act, Insurance (Captive Company) Act, Insurance (Marine) Act, and International Financial Business Act. Responsible for working with the Insurance Council of B.C., which oversees licensed insurance professionals.

Real Estate and Mortgage Brokers

Responsible for some regulatory activities under the Real Estate Act, the Mortgage Brokers Act, and the Strata Property Act. Responsible for working with the Real Estate Council of B.C., which oversees real estate agents and salespersons, and property managers.

Pensions

Responsible for supervising provincial pension plans and administering the minimum stardards under the Pension Benefits Standards Act.

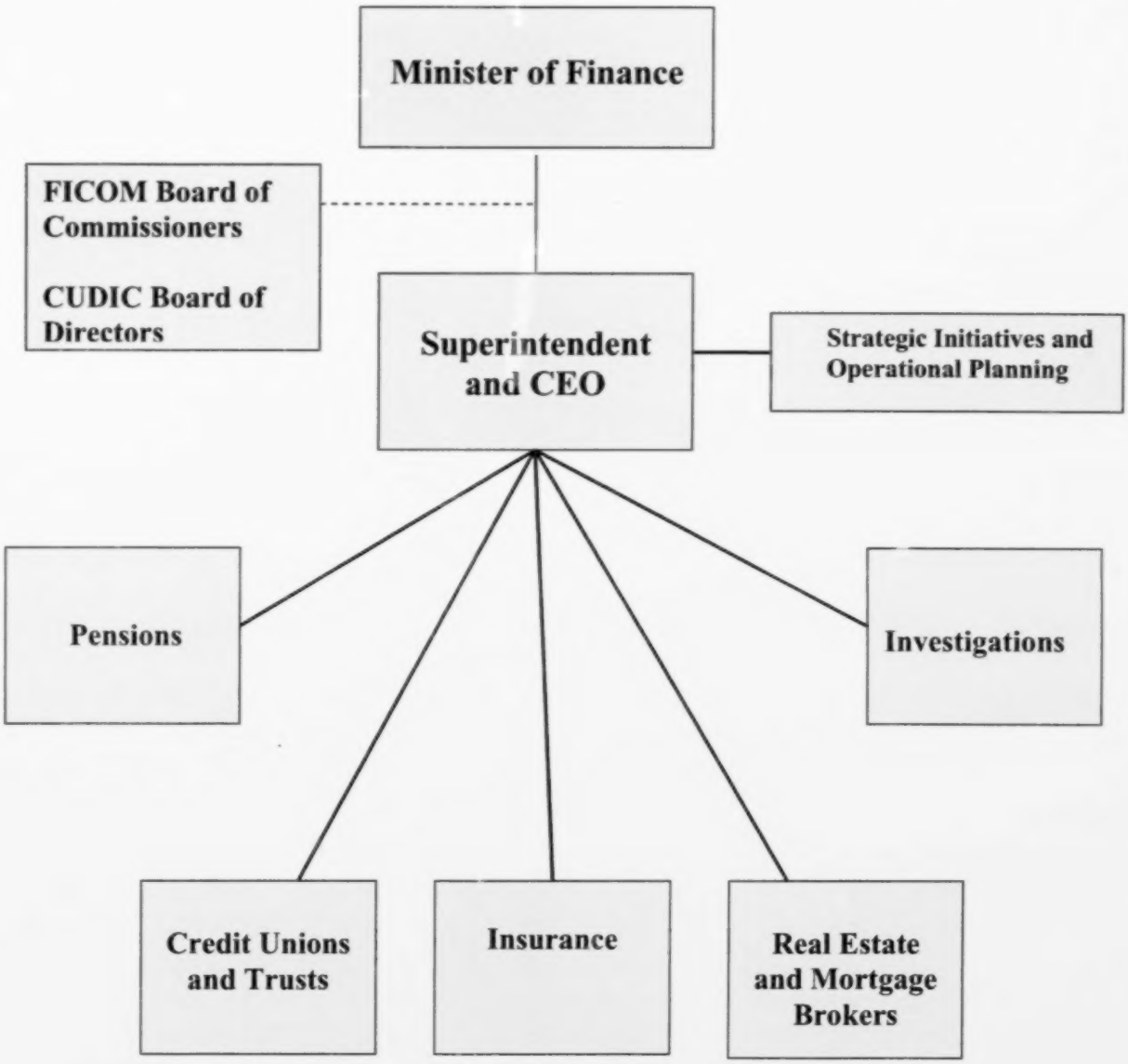
Investigations

Responsible for investigating statutory breaches of all acts administered by FICOM as well as undertaking investigations into related criminal matters, such as fraud.

Administration

- **Administrative Services:** Includes the Records Department, the Systems Department, and the Accounting Department.
- **Strategic Initiatives and Operational Planning:** Provides a variety of functions including policy and legislative reviews, strategic operational planning, contract administration, public information, communications, and performance reporting.

ORGANIZATIONAL CHART



ORGANIZATIONAL GOALS

As part of the Core Services Review, the government has endorsed the regulatory role of FICOM and indicated support for the organization's strategic objectives. As organizational goals, FICOM has five ongoing regulatory responsibilities and six strategic objectives.

Regulatory Responsibilities

1. Effectively regulate financial institutions authorized to conduct business in British Columbia.
2. Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers, and mortgage brokers.
3. Identify and pursue inappropriate, unauthorized, and criminal activity involving the financial services sector.
4. Effectively manage the Credit Union Deposit Insurance Corporation (CUDIC).
5. Effectively regulate provincial pension plans.

Strategic Objectives

1. Eliminate unnecessary regulatory burden on institutions.
2. Streamline and harmonize regulations with other jurisdictions.
3. Provide information to assist the public in detecting fraudulent or other inappropriate business practices.
4. Develop a human resources plan to resolve staffing issues and recruitment problems.
5. Develop and implement new information systems to meet FICOM's information needs as a risk-based regulatory framework is introduced.
6. Review current real estate and mortgage broker related fees.
7. Design and implement a comprehensive system of performance measures that specifies output, outcome and efficiency measures for the organization's core business areas.

SECTION 5: PERFORMANCE MEASURES AND TARGETS

FICOM is currently designing and implementing a new risk-based regulatory framework to replace the historic compliance-based regulatory model. This move represents a major transformation of the organization: departments will be realigned, positions will be altered, communications and information systems will be updated, and the information requested of institutions modified. While the fundamental regulatory responsibilities will remain largely the same, the way that these responsibilities will be administered will be changing dramatically.

The challenges for FICOM that this move involves include the development of a new performance management system. This task is being addressed in phases by FICOM, as the new framework is developed and implemented. The focus of the first phase has been the updating of organizational goals and the development of a first series of performance measures. As the new framework is introduced, new performance measures will be developed, with particular attention to distinct output, outcome and efficiency measures. This has been identified as a strategic objective for the organization.

The performance measures identified in this first phase are grouped in accordance with the organizational goals identified for FICOM. Two charts are included on the following pages: one for FICOM's regulatory responsibilities and one for FICOM's strategic objectives. FICOM's regulatory responsibilities relate to the overall condition of the financial services, provincial pensions, and real estate sectors in British Columbia. FICOM's strategic objectives relate to the introduction of a risk-based regulatory framework and other changes being undertaken by the organization.

FICOM's Regulatory Responsibilities

Goal	Performance Measure	2002-2003 -Baseline	2003-2004-Target	2004-2005-Target	2005-2006-Target
Effectively regulate financial institutions	Survey of consumer confidence	75% confident in regulated institutions*	Comparison to benchmark	Comparison to benchmark	Comparison to benchmark
	Survey of Financial Institutions	75% fair treatment by regulator**	Comparison to benchmark	Comparison to benchmark	Comparison to benchmark
	Migrate from compliance-based framework to a risk-based framework	Merge Credit Union and Examinations Depts.	Develop and refine new monitoring and examination systems	Review new programs and make adjustments as required	Continued evaluation and updating of regulatory system
	Cost of regulation per $1000 of "net premiums written"	$0.518 per $1000	Time-series and cross-jurisdictional comparison	Time-series and cross-jurisdictional comparison	Time-series and cross-jurisdictional comparison
	Total credit union fees and assessments relative to total system assets.	$.27 per $1000	Time-series and cross-jurisdictional comparison	Time-series and cross-jurisdictional comparison	Time-series and cross-jurisdictional comparison
Ensure regulatory compliance by real estate developers, real estate agents and salespersons, property managers, and mortgage brokers.	Investigate all complaints of non-compliance and/or criminal activities	100% of complaints received are investigated	100% of complaints received are investigated	100% of complaints received are investigated	100% of complaints received are investigated
Identify and pursue inappropriate, unauthorized, and criminal activity involving the financial services sector.	All complaints/activities requiring investigation are reviewed.	100% of complaints/activities requiring investigation are reviewed.	100% of complaints/activities requiring investigation are reviewed.	100% of complaints/activities requiring investigation are reviewed.	100% of complaints/activities requiring investigation are reviewed.
Effectively manage CUDIC	Size of fund committee to report on appropriate size	Committee to Report	Maintain adequate fund	Maintain adequate fund	Maintain adequate fund

	Compare investment manager performance to investment policy objectives	Will be addressed in 2002/2003 Annual Report	Meet investment policy objectives	Meet investment policy objectives	Meet investment policy objectives
	CUDIC administration expense	Actuals will be reported in 2002/2003 Annual Report	Time-series comparison	Time-series comparison	Time-series comparison
Effectively regulate provincial pension plans.	Survey pension plan members	Not available	Establish benchmark	Compare to benchmark	Compare to benchmark

* Confidence will be defined for individual types of financial institutions for the purposes of survey research.
** Fair will be defined for individual types of financial institutions for the purposes of survey research.

FICOM's Strategic Objectives

Goal	Performance Measure	2002-2003 -Baseline	2003-2004-Target	2004-2005-Target	2005-2006-Target
Eliminate unnecessary regulatory burden on institutions *	Review and rewrite the Financial Institutions Act	Release discussion paper	Help develop new legislation	Draft of new Act	Proclamation
Streamline and harmonize regulations with other jurisdictions **	Chair CCIR working group on Streamlining and Harmonization; Classes of Insurance Project	Identify issues that can be streamlined and harmonized	Develop new approaches	Implement new approaches	Evaluate new approaches
Provide information to assist the public in detecting fraudulent or other inappropriate business practices	Develop a communications plan	Plan to be written	Revise plan and implement	Comparison to status quo at outset	Comparison to status quo at outset
Develop a human resources plan for staffing/recruitment issues	Develop a human resources plan	Plan to be written	Implement plan	Comparison to status quo at outset	Comparison to status quo at outset
Develop and implement new systems to meet FICOM's information needs as a risk-based regulatory framework is introduced	Complete workflow analysis, develop applications, and document new processes	Initiate Phase 1 workflow analysis	Implement Phase 2 workflow analysis	Complete workflow analysis, implement final applications, and document new processes	Evaluate future requirements
Review current real estate and mortgage broker related fees	Completion of review	Review initiated	New fee structure proposed	New fee structured implemented	Continued monitoring of fees
Develop new output, outcome and efficiency measures for core business areas	List of measures	Research	Publish and monitor partial list	Publish and monitor complete list	Publish and monitor complete list

* FICOM is dependent upon assistance from other branches of the provincial government to complete this project.
** FICOM must reach agreement with other jurisdictions on these initiatives, which may be quite difficult to achieve.

Summary Expenditure Plan ($000)

Core Businesses	2001/02 Base Data	2002/03 Estimates	2003/04 Estimates	2004/05 Target *	2005/06 Target *
Operating Expenditures					
Credit Unions and Trusts	1,989	2,025	2,091	2,133	2,175
Insurance	539	704	796	812	828
Investigations	1,179	1,190	1,170	1,193	1,217
Real Estate and Mortgage Brokers	1,153	1,177	1,166	1,189	1,213
Pensions			575	587	599
Administration	2,531	2,444	3,218	3,282	3,348
Recoveries	(7,390)	(7,539)	(9,015)	(9,195)	(9,379)
Totals	**1**	**1**	**1**	**1**	**1**
	FTEs	**FTEs**	**FTEs**	**FTEs**	**FTEs**
Direct	81	81	89	89	89
Indirect					

* Targets forecasted at February 12, 2003.

** Note: the above figures are branch costs which do not reflect allocation of administration costs to individual programs.